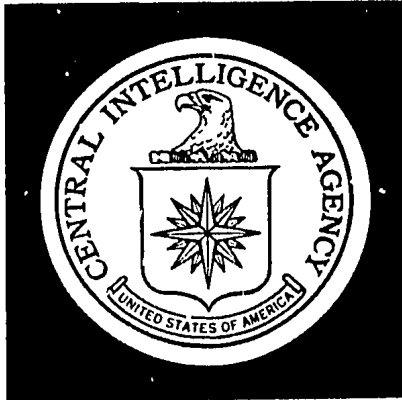


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**DIRECTORATE OF  
INTELLIGENCE**

# Intelligence Memorandum

*Burma's Rice Problem*

**Secret**

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July 1968

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CENTRAL INTELLIGENCE AGENCY  
Directorate of Intelligence  
July 1968

INTELLIGENCE MEMORANDUM

Burma's Rice Problem

Summary

Burma's rice exports are continuing their sharp decline and may amount to no more than 300,000 tons\* in 1968. In comparison, Burma exported about 500,000 tons in 1967 and 1.7 million tons in 1963, when it was the world's leading rice exporter. Current collections from peasants are running behind plans, and on 9 May Rangoon imposed a moratorium on rice exports until at least September of this year.

Since rice normally accounts for 60 to 70 percent of the country's foreign exchange earnings, imports of machinery and equipment, as well as consumer goods, seem certain to fall further.

Economic conditions in Burma are not likely to improve as long as General Ne Win remains committed to his present policy which gives no incentive to the peasant to sell rice to the government or for the privately owned sector of the milling industry to modernize its equipment. Unless government policy changes considerably, the long-run prospects for increased rice exports and some revival in economic activity appear quite bleak.

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\* All tonnages are in metric tons.

*Note: This memorandum was produced solely by CIA. It was prepared by the Office of Economic Research and was coordinated with the Office of Current Intelligence.*

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Rice exports began to decline when the Ne Win government late in 1963 took complete control of procuring rice from the peasants. Prices offered the farmer have remained so low that the amount of rice they have been willing to sell the government has steadily declined, although production has remained relatively constant. Moreover, a rising share of government rice procurement has been used to meet urban needs, with the result that the amount of rice available for export was sharply reduced.

With export earnings down nearly 50 percent in 1967, compared with 1963, and continuing to decline in 1968, Rangoon has chosen to cut imports by an almost equal amount rather than spend its foreign exchange reserves, which came to \$154 million in April 1968. There has been a decline in investment and government revenue, an increase in the general price level, and about a 20-percent drop in national income between 1963 and 1967.

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Rice and The Burmese Way to Socialism

1. When General Ne Win, through an almost bloodless military coup, seized power for the second time on 2 March 1962, he declared that parliamentary democracy under Prime Minister U Nu had failed.\* Subsequently, the ruling Revolutionary Council of senior military officers, headed by Ne Win, announced an official policy entitled "The Burmese Way to Socialism." Under the Ne Win regime, socialism was accelerated and almost all of the private sector came under state control. With the transportation, communications, and power industries already nationalized, Rangoon took over the tobacco industry, all domestic and foreign trade, the timber industry, commercial banks, mining, several large rice mills, and the wholesale and retail commodity distribution systems. Foreign-controlled joint-venture corporations, such as the Burma Oil Company, also came under state ownership.

2. The Ne Win government's takeover of several large rice mills and the threat to nationalize all others has hindered modernization of Burma's rice-milling industry. Private owners have been understandably reluctant to invest in new plant and equipment, and the government has failed to make improvements in those mills already nationalized, because of a lack of foreign exchange to import needed equipment. Thus Burmese rice exports continue

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\* Ne Win had previously acted as the leader of a military caretaker government from October 1958 to April 1960. The stated purpose of this caretaker government was to create security conditions which would allow democratic general elections. During this eighteen-month period, Ne Win encouraged private indigenous and foreign investment and the private trade in rice and teak. He also liquidated the state's monopolies of rubber and cotton.

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to be of low quality, commanding a much lower price than those of the other leading rice-exporting countries -- the United States and Thailand. In 1967, for example, one of Burma's better grades of rice sold for \$120 per ton on the world market, compared with a price of about \$215 per ton for the better grade of Thai rice.

3. In agriculture -- the main sector of the Burmese economy -- government control was sought through the establishment of cooperatives rather than through nationalization. Approximately 12,000 marketing cooperatives have been established and are charged with the management of about one-third of the government's rice-purchasing centers. These cooperatives have not met their procurement goals, because they generally have been poorly administered and unresponsive to government policies. Despite these shortcomings, in April 1968 Rangoon announced its intentions to expand the cooperative movement by replacing a number of government stores, which deal in primary foodstuffs, with a system of consumer cooperatives.

4. Rangoon also initiated measures designed to improve the lot of the small tenant farmer. In March 1963 the government announced a rent control program and a month later adopted a land reform program prepared by U Ba Nyein, a well-known Burmese Marxist and the military regime's financial adviser. Land owned or controlled by absentee landlords was to be redistributed, largely among the former tenants. Although more than four million acres out of a total of about 20 million acres being farmed were redistributed, this program has not resulted in increased rice production. Rangoon also announced in late 1963 that, beginning with the current rice crop, it would assume control over the entire external and internal rice trade and would purchase rice directly from farmers. (For the principal rice growing areas in Burma, see Figure 1.) The rice export trade essentially had been a government monopoly since 1947, with only a few private firms being allowed to export rice under strict government control. Under the new regime, private exports have been completely eliminated.

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5. Before the Ne Win regime, the domestic rice trade was handled principally by private wholesalers and retailers. The government did purchase some rice, but at a single low price that did not distinguish between grades -- this was basically a support price. Private traders, however, purchased rice at multiple prices, depending on the grade. Although peasants were free to sell their rice to either government or private buyers, the price offered by the government was so low that peasants generally offered the government only the lower quality rice. The better quality rice, generally commanding prices considerably greater than that offered by the government, was sold to private traders and consumed domestically. In 1962, for example, one year before the Ne Win government monopolized the rice trade, private traders offered prices which were 10 to 35 percent greater than the government's single price of \$30 per ton. As a result, rice exports, which came exclusively from government procurements, were of an extremely low quality.

6. Under Ne Win, the government established a system of multiple procurement prices for different grades of rice and abolished the free market. But these prices have been 10 to 20 percent lower, grade for grade, than the prices formerly paid in the free market. Furthermore, black market prices may have been two to three times higher than the government prices. As a result, peasants have either hoarded their rice or sold it on the black market, and government procurements have dropped off sharply. In this situation, exports have steadily declined. In 1963, government procurement prices averaged about \$35 per ton and by the end of crop year 1965/66\* had increased to an average of only about \$36 per ton, the lowest in the world (see Figure 2).

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\* The crop year begins in August of one year and ends the following July. Rice exports for a given calendar year are generally derived from the preceding crop year.



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The Result of Nationalizing The Rice Trade

7. The most serious shortcoming of the Ne Win government's rice policies has been the failure of Rangoon's monopoly in purchasing rice. Prior to complete nationalization of the rice trade, government rice procurements went principally for exports. The government had little difficulty in meeting its export requirements, although the rice procured was generally of extremely low quality. Government rice procurements under Ne Win have steadily fallen. Available data on rice production, exports, and domestic consumption since 1948, including government rice procurements under the Ne Win regime, are shown in Figure 3.

8. Burma's rice exports in 1967 fell to their lowest level since World War II (see Figure 4), causing Burma to drop to fourth place among the world's leading rice exporters. Exports declined in 1964, although rice production in crop year 1963/64 had reached a record level of 5.5 million tons (milled), principally because of immediate gains resulting from Ne Win's land reclamation programs. From 1964 to 1968, however, rice production remained relatively constant at a somewhat lower level, except for a sharp drop in 1966 as a result of poor weather. The stagnation of production is possibly due to the reduced incentive for farmers to produce rice beyond their own needs.

9. By August 1967 the supply of rice was so short -- because of the continued decline in government rice procurements -- that Burma was forced to default on 1967 export contracts to ease its own rice shortage. Even so, Rangoon had to institute urban rice rationing. The supply was inadequate even at the rationed level, and the government, unable to procure enough rice at its low procurement price, temporarily permitted consumers to purchase directly from peasants at free market prices which, in effect, legalized the black market. Even these measures were not enough, and widespread riots and lootings of government rice distribution centers occurred throughout Burma, culminating in August when Burmese troops killed 22 people in a rice riot in Akyab.

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10. Despite the unrest, in October 1967 the government began to reassert its control over the internal rice trade. On 15 February 1968, Rangoon announced new and more stringent controls. Black market rice traders now faced a maximum penalty of death and confiscation of their property. Direct purchases from peasants were greatly circumscribed. Within ten days the black market price of rice in Rangoon more than doubled.

11. Because rice exports normally account for 60 to 70 percent of Burma's foreign exchange earnings, the latter have declined sharply and imports have been drastically cut. Reductions in imports of spare parts and industrial materials have forced a decline in industrial production. Government revenue has decreased substantially, primarily because exports and imports -- a principal source of tax revenue -- are down and because rice moves through black market traders and thus escapes government taxes. In turn, lower government revenue and reduced imports of machinery have caused a drop in investment. National income declined about 20 percent between 1963 and 1967.

12. Because Burma produces few consumer goods, the Burmese consumer has borne the brunt of the cutback. Consumer goods, which normally account for about 70 percent of total imports, have been cut in half. Textile imports were almost entirely eliminated.

13. The Ne Win regime's complete takeover of rice procurements and the ensuing shortfall in exports have had some international repercussions. The sharp drop in Burmese rice exports in 1967 was partly responsible for Ceylon -- traditionally Burma's largest customer -- shifting to other food grains and to other suppliers for some of its remaining rice imports. For example, Ceylon increased its imports of flour in 1967 and had to pay much higher prices to Thailand for rice. The world average export price of rice increased by 19 percent -- from \$140 per ton in 1966 to \$167 per ton in 1967 -- primarily because Burmese exports declined some 800,000 tons, thus reducing world rice supplies available

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to traditional importers.\* Even though total world exports of rice in 1967 remained at about the 1966 level, they included US rice exports to South Vietnam, which increased sharply in 1967. Communist China's increased exports of about 70,000 tons in 1967, however, had little effect on the world market.

Prospects

14. Economic conditions in Burma are not likely to improve soon, because General Ne Win appears to be unwilling to relinquish control over the rice trade or to increase the procurement price significantly. Rice production in crop year 1967/68 is expected to increase to about 5.2 million tons (milled), compared with 4.9 million tons last year, largely because of good weather. State procurements, however, are running substantially behind last year's low level. Unless Rangoon sharply increases its procurement price, peasants will continue to sell their rice on the black market.

15. With government stocks greatly below requirements, Rangoon on 9 May placed a moratorium on all rice exports. Even though the moratorium is scheduled to be lifted in September, rice exports in 1968 will probably be only about 300,000 tons -- a drop of almost 200,000 tons from the low level of 1967. This will cause a further reduction in imports and government revenue, which will further depress investment and industrial output.

16. Ne Win, however, appears committed to his present policies, which give little incentive to the peasant to sell his surplus rice to the government. In the past, this has sparked resentment among Burma's peasants and last year led to the public

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\* World export prices also had increased to \$140 per ton in 1966 from \$124 per ton, the relatively stable price that had prevailed from 1963 to 1965, but this gain cannot be attributed entirely to Burma. It resulted principally from a decrease of about 800,000 tons in exports from the United States, Thailand, and Cambodia.

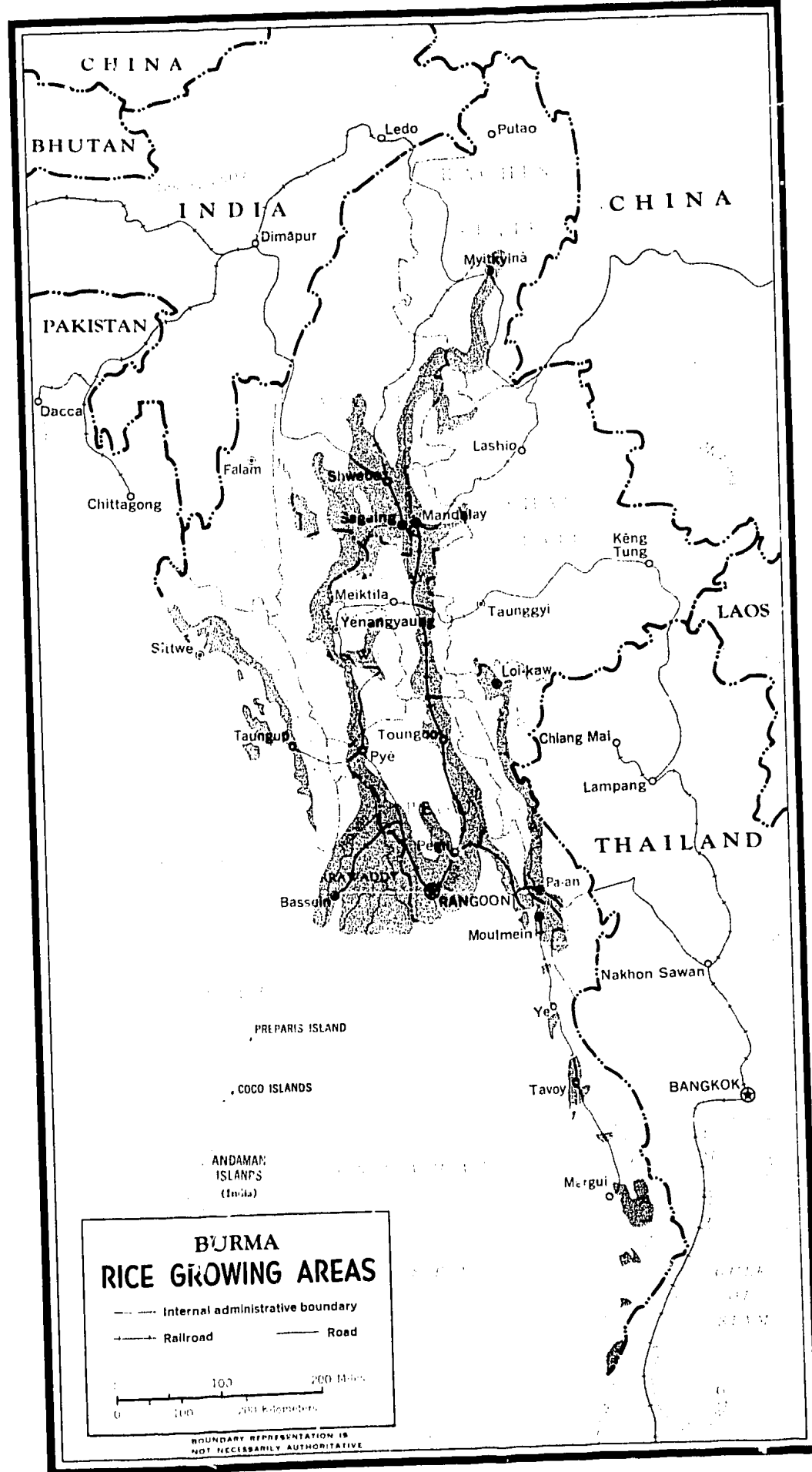
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disorders which forced the government to relax controls briefly and allow certain private trading. This intermittent tightening and relaxing of government controls will probably continue to keep serious resentment from building up, but does little to overcome the basic inadequacies of "The Burmese Way to Socialism." Without a clear change in government policy, the long-run prospects for increased Burmese rice exports and some revival of economic activity appear quite bleak.

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Figure 1

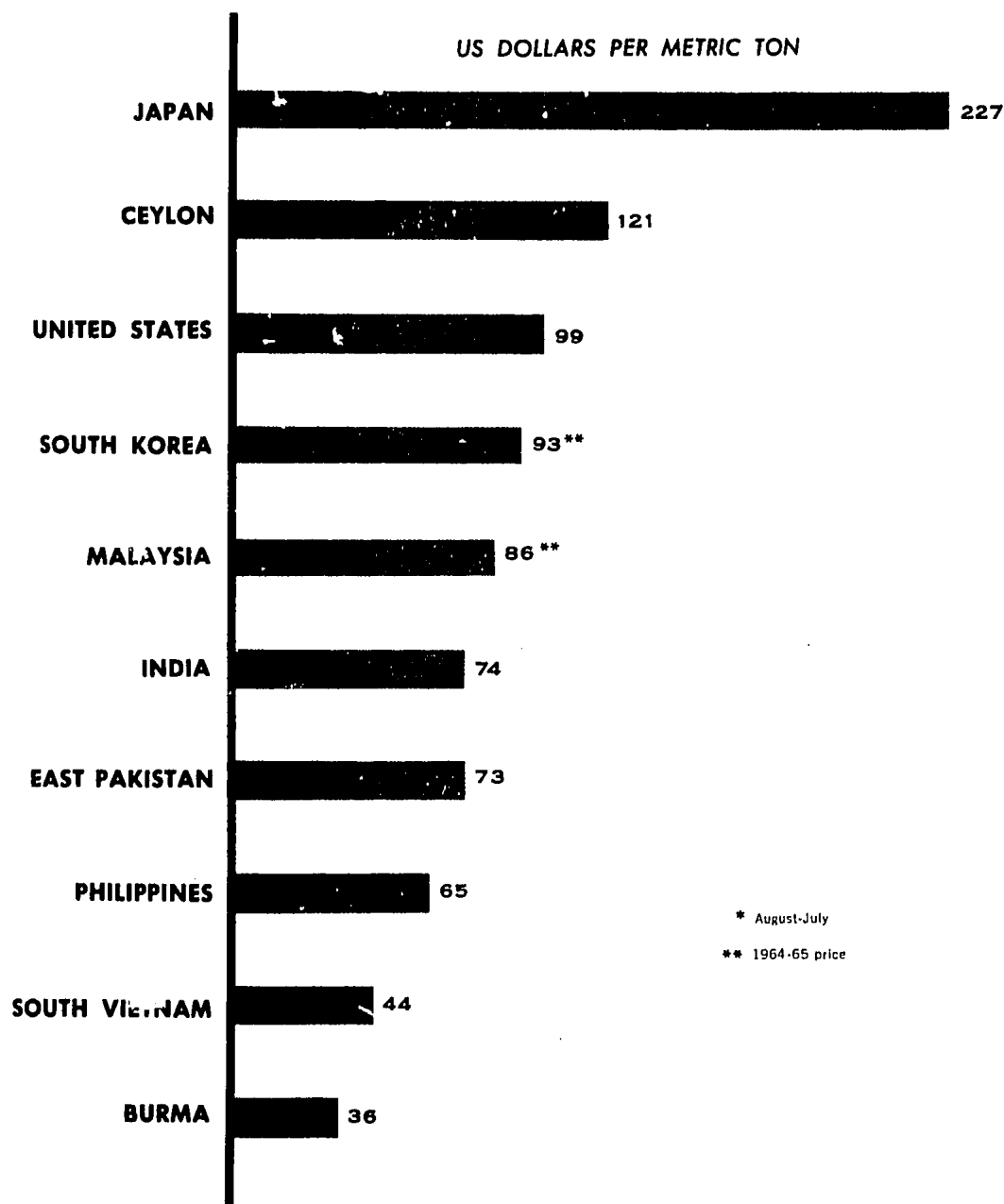


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Figure 2

## SUPPORTED OR STABILIZED PRODUCER PRICES FOR RICE IN SELECTED COUNTRIES

Croyear 1965-66\*

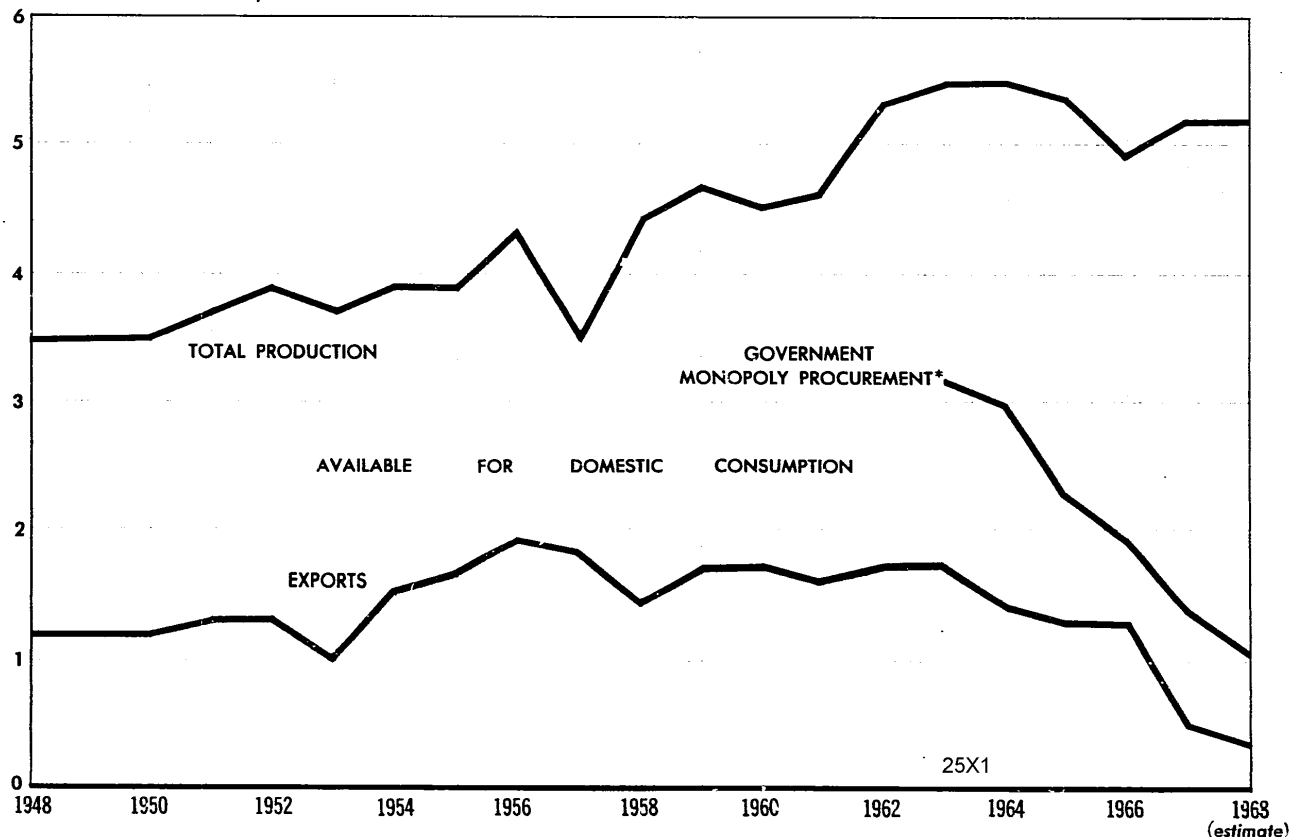


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Figure 3

**BURMA: ESTIMATED RICE PRODUCTION, DOMESTIC CONSUMPTION, AND EXPORTS, 1948-68**  
**GOVERNMENT MONOPOLY PROCUREMENTS, 1963-68**

*Milled rice (million metric tons)*

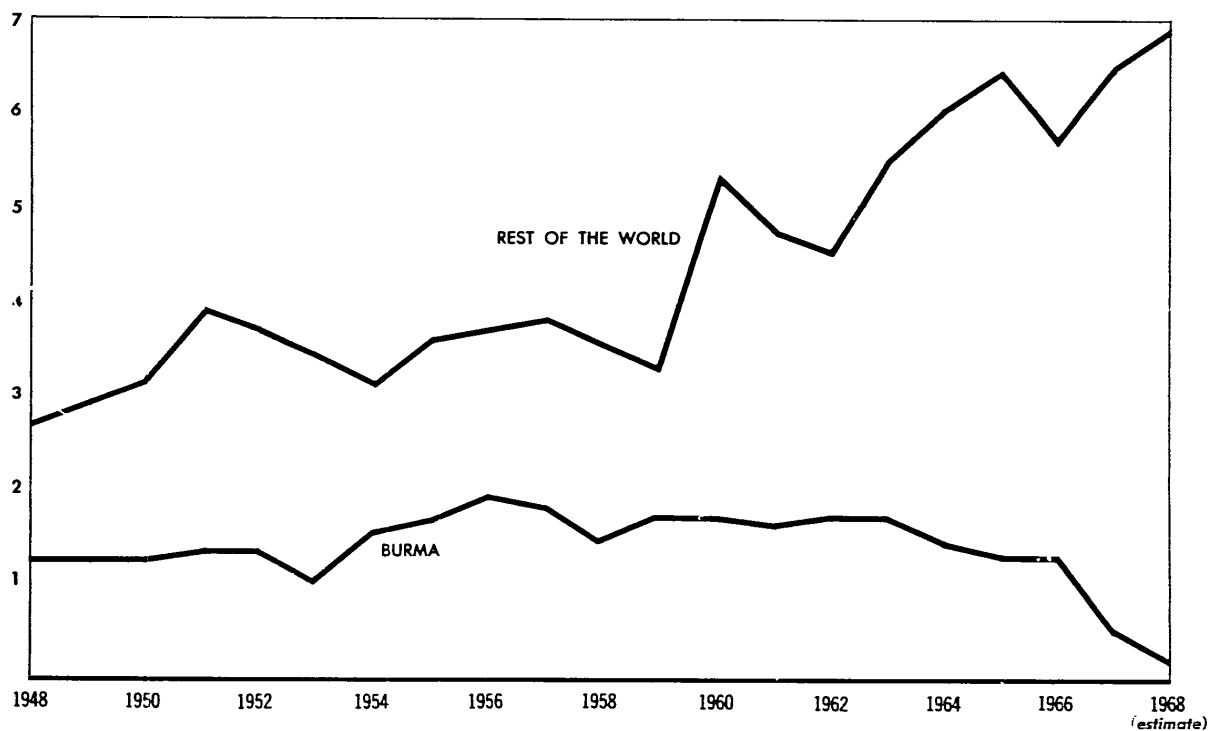


\* Prior to 1963 government procurements went almost exclusively for exports. Beginning in 1963 however, the Ne Win regime began purchasing some rice for domestic urban consumption as well as for exports.

Figure 4

### RICE EXPORTS, BURMA AND THE REST OF THE WORLD, 1948-67

Milled rice (million metric tons)



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